

## **Model – Management Discussion and Analysis (MD&A)**

(February 2003)

This document was prepared by the Montana Office of Public Instruction (OPI) to assist Montana school districts in preparing the Management Discussion and Analysis (MD&A) for audit reporting in accordance with GASB Statement No. 34. For complete information, OPI recommends reading the “GASB Statement No. 34 Implementation Recommendations for School Districts” which can be ordered online at <http://asbointl.org/Publications/PublicationsOnline/index.asp?s=0&bid=942>

National accounting and reporting standards require that the management of the school district (district superintendent and business manager/clerk) write the MD&A to be published with the district’s audited financial statements. The auditor will include the MD&A with the audited financial statements to help the reader of the audit report understand the statements from the school district’s perspective.

GASB Statement No. 34 encourages, but does not require, presenting prior year information in the first year of reporting under the new format. If you choose not to present prior year information, you must include a statement to that effect in the MD&A. Prior year information is required in subsequent years.

This model suggests topics the management of a school district should address when preparing the MD&A to present with audited financial statements:

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## **Management Discussion and Analysis (MD&A)**

The Superintendent and Business Manager/Clerk of the \_\_\_\_\_ School District have provided this MD&A to give the reader of these statements an overview of the financial position and activities of the school district for the year covered by this audit report.

### **FINANCIAL HIGHLIGHTS**

[This section is meant to be an introductory paragraph and is not required by GASB Statement No. 34. It may be used to provide information that will encourage the reader to consider the remainder of the report. It can be a brief summary of the district’s financial position and factors that have affected those activities.]

### **USING THIS FINANCIAL REPORT**

The general format of this report is required by Statement No. 34 of the Governmental Accounting Standards Board (GASB). Components and purposes of the report are explained below.

### **Reporting the School District as a Whole**

The report includes two district-wide statements that focus on operations of the district as a whole. These statements measure inputs and outflows using an economic resources measurement focus, and use the accrual basis of accounting. Activities that are fiduciary in nature are not included in these statements.

A. The **Statement of Net Assets** (page \_\_\_\_ ) shows the “assets” (what is owned), “liabilities” (what is owed) and the “net assets” (the resources that would remain if all obligations were settled) of the school district. The statement categorizes assets to show that some assets are very liquid, such as cash and cash equivalents. Some assets are restricted for certain purposes or reserved for emergencies and cash flow purposes. Some assets are invested in “fixed” or “capital” assets, such as buildings, equipment and other long-lived property; and some assets are available to fund budgets of the following year.

B. The **Statement of Activities**, (page \_\_\_\_ ) shows the amounts of program-specific and general school district revenues used to support the school district’s various functions.

The Statement of Net Assets and the Statement of Activities divide the activities of the school district into three categories:

Governmental activities – The school functions, including instruction, student services, administration, etc. Property taxes, state and federal revenues usually support most of these functions of the district.

Proprietary (business-type) activities – [State which types of school operations are provided using an enterprise fund type and explain how they are funded.]

Component units – The district is the fiscal host for the \_\_\_\_\_ Special Education Cooperative. Although operated under a separate management board, the school district is fiscally responsible for the operations of the cooperative. In addition, the district participates in an interlocal agreement with [state the parties] that [explain what the interlocal agreement accomplishes]. Both these units are reported as component units on the district-wide reports. [Also indicate if separately issued financial statements for component units are available.]

### **Reporting the District’s Most Significant Funds**

The fund statements provide detailed information about the funds used by the school district. State law and Generally Accepted Accounting Principles (GAAP) establish the fund structure of school districts. State law generally requires school districts to segregate money generated for certain specific purposes, like transportation and debt service, in separate fund accounts.

The fund statements report balances and activities of the most significant, or “major” funds separately and combine the activities of less significant funds under a single category. Significance of funds is determined based on the proportional size of the funds, the relative importance of the activities of the funds to the school district’s operations, and the existence of

legal budget requirements. Internal Service funds are never reported as major funds, but are combined and presented in a separate column.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance are shown for governmental funds, such as the general fund, special revenue funds for transportation and school food service, and debt service and capital outlay funds. These funds use the modified accrual basis of accounting and represent the majority of the district's activities and programs.

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows are shown for proprietary (business-type) funds, covering district activities that generally provide services on a cost-recovery basis between various funds of the district, such as [state what your district uses them for, such as centralized printing services and purchasing operations]. Proprietary funds use the accrual basis of accounting.

Fund statements include a reconciliation of the governmental fund statements to the district-wide statements. Most significant differences result from the use of different presentation bases. The district-wide statements are presented using the accrual basis of accounting and the fund statements for governmental funds use the modified accrual basis. In addition, general capital assets and general long-term debt are reported in the district-wide statements but not in the fund statements.

#### **Reporting the District's Trust and Fiduciary Responsibilities**

The district is the trustee, or fiduciary, for: [list any trusts or agency funds, including self-insurance plans, endowments and miscellaneous trusts, and the student extracurricular fund.] This report includes the activities in a separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets (page \_\_) because the district cannot use these assets to fund its operations. The district is responsible for ensuring these assets are used for their intended purpose.

#### **Budget –to-Actual Comparisons**

The budgetary comparison schedules on page \_\_ show how actual expenditures compared to the original and final budgeted expenditures for the general fund. [Discuss reasons for significant variances between the original and final expenditure budget and the final budget and actual expenditures.]

#### **THE DISTRICT AS A WHOLE**

[This section is an analysis of the district's financial activities using information from the district-wide financial statements. It should be a discussion of the current year results in comparison with the prior year, with emphasis on the current year. Discuss the positive and negative aspects of the comparison with the prior year. ***Note: Presenting prior year information in the year of implementation is optional. If you choose not to include prior year information, include a statement stating that prior year information is not available, but will be provided in subsequent years.*** Present the following information needed to support your analysis and results of operations.]

## 1. Changes in Net Assets

[What do the net assets show about the relative financial health of the school? Did the net assets of the school district's governmental-type activities, including instructional programs and administration, increase, decrease, or remain approximately the same during the year? If the school operates business-type activities, including centralized printing or transportation services using enterprise funds, did the net assets of these activities increase, decrease, or remain approximately the same during the year? Provide an explanation for significant changes. In addition to answering these questions, OPI recommends to present the chart below.]

	Governmental Activities		Business-Type Activities		Total School District		Total Change	
	FY2003	FY2004	FY2003	FY2004	FY2003	FY2004	\$ Change	%Change
Current and other assets								
Capital assets								
<b>Total assets</b>								
Long-term debt outstanding								
Other liabilities								
Total liabilities								
Net assets								
Invested in capital assets, net of related debt								
Restricted								
Unrestricted								
<b>Total net assets</b>								

## 2. General and Program Revenues

[Using round dollar figures, what amounts and percentages of total revenue do the general revenues provide? What amount and percentage of total revenues do program revenues, in the form of specific charges for services or grants and contributions, provide? In addition to answering these questions, OPI recommends to present the chart below.]

Changes in Net Assets						
	Governmental Activities		Business-Type Activities		Total School District	
	FY2003	FY2004	FY2003	FY2004	FY2003	FY2004
<b>Revenues</b>						
Program revenues:						
Charges for services						
Operating grants and contributions						
Capital grants and contributions						
General revenues:						
Property taxes						
State equalization						
Other general revenues						
Total revenues						

	Governmental Activities		Business-Type Activities		Total School District	
	FY2003	FY2004	FY2003	FY2004	FY2003	FY2004
<b>Program expenses</b>						
Regular programs						
Special programs						
Vocational programs						
Adult education programs						
Other programs						
Operation and maintenance						
School food						
Extracurricular						
Student transportation						
Administration						
Interest expense						
Unallocated depreciation						
Total expenses						
Excess (deficiency) before special items and transfers						
Special items –						
Transfers						
Increase (decrease) in net assets						

### 3. Spending Levels Compared to Resource Levels

[Using round dollar figures, how did the school district's spending for governmental activities compare to total revenues for the district, including program and governmental revenues, for the year? How does that spending pattern compare to the prior year? If governmental expenditures exceeded total general and program revenues, explain. In addition to answering these questions, OPI recommends to present the chart below.]

	FY2002-03		FY2003-04	
Expenditures Supported with General Revenues (from taxes and other sources for general school use)		%		%
Expenditures Supported with Program Revenues		%		%
Total Expenditures Related to Governmental Activities		100%		100%

### 4. Changes in Finances Caused by Changes in Programs

[What new costs or programs were added this year, if any, that account for significant increased costs and what fund(s) did that increase affect? (1-5 sentences)]

### 5. Identifying and Resolving Financial Difficulties

[If a budget problem or error significantly impacted any fund, explain the problem, how it impacted the district's operations, and how it was resolved or accommodated. (1-5 sentences)]

### 6. Significant Events and Trends

[Briefly explain any other significant occurrence that is reflected in or impacts the financial statements for the year. (1-5 sentences)]

## **ANALYSIS OF FINANCIAL INFORMATION**

The following analysis is provided to help the reader understand the major operations of the school district, where the resources come from, what the resources are used for, and trends, decisions and events that are expected to affect the district's financial situation in the future. Historical information from one or more prior years is shown to illustrate trends, problems, and achievement of the district's goals.

### **1. What Does the School Do?**

[List significant activities of the district, such as instruction, transportation, participation in federal programs, etc. Point out significant newly added or changed activities.]

### **2. Where Do the Resources Come From?**

[Show major general and program revenues and compare to total revenue. Discuss special or extraordinary items of revenue and significant transfers.]

### **3. What Does it Cost?**

[Show costs of major functions and their relative size, compare to total expenditures, and highlight any significant differences between years. Discuss special or extraordinary items of cost and significant transfers. It may be useful to illustrate with a pie chart, graph or table.]

### **4. What are the Capital Assets and Debt of the District?**

[State the amount of capital assets of the district and generally state the types of assets included in the amount (school buildings, buses and other vehicles, computers, other equipment, etc.). Discuss the net increase or decrease of capital assets compared to the previous year, relating it to specific causes, if possible (i.e., did the district make any significant purchases or retirement/disposals of assets that contributed to a significant net increase or decrease in capital assets?) List the depreciation expense for the year, including any related information that is significant. List capital assets by category, net of depreciation, or similar information. Describe long-term debt, including bonds, leases and long-term notes.]

### **5. Fund Deficits**

[Which fund or funds, if any, had an ending fund balance deficit, and why? (1-5 sentences)]

### **6. What Changes and Trends Affect the District's Future?**

[List and illustrate, if possible, currently known facts that will affect the District's overall financial position. The discussion should be only of events or decisions that have already occurred, or have been enacted, adopted, agreed upon, or contracted. Some examples include, but are not limited to approved building or other capital projects; approved bond issues, INTERCAP loans or lease agreements; activities of major taxpayers in the district (shut-downs or new commercial development expected to affect the tax base); activities expected to affect enrollment (such as approval of new subdivisions); ratified salary or benefit agreements for the ensuing year that will have a significant impact on the district's finances; state laws that have been enacted that will affect the district's finances; and/or legal decisions or settlements that have occurred.]

**CONTACT FOR FURTHER INFORMATION**

[State how to contact the school management and business staff, including a contact person, school address, phone number, e-mail address, etc.]

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